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BRIEF

TO

The Ontario Committee On Taxation

SUBMITTED BY

TRANS-CANADA PIPE LINES LIMITED

FEBRUARY 1964

Recommendation

1. Introduction of provincial assessment and collection of property taxes on natural gas transmission pipelines.

OR

Alternatively, use of an equalization factor for level of assessment within a taxing area.

2. Discontinuation of Capital and Place of Business Tax.

3. Simplification and uniformity in Canadian tax structure.

General

Trans-Canada Pipe Lines Limited owns and operates 1,595 miles of natural gas pipeline in the Province of Ontario which system stretches from Manitoba through Northern and Southern Ontario to Quebec.

The Trans-Canada system extends through nearly every populated area of the province (except South Western Ontario) and crosses the area of Northern Ontario in which much future population growth of the province will take place. Possibly no other investor owned enterprise in the province encounters so many different local conditions.

The distribution companies in Ontario who rely on this sytem for the supply of natural gas serve 286 communities and about 40% of the urban households in the Province.

As an introduction, it is most important to emphasize how a "regulated" company arrives at its selling prices. Taxation, whether it be property, sales or income taxes, is an element of cost of service. This means that the consumer pays for all taxes incurred by the utility. An increase in taxes therefore causes an increase in the price to the consumer.

Municipal and Local Taxation

Because of its pipeline system, this Company has a direct interest in all matters relating to municipal assessment. Our major concern is centered on the underground facilities, the pipeline.

The above-ground facilities, sites where we have compressor stations and small communities, enjoy the services which are available in the respective municipalities and must therefore be included in the local taxing area.

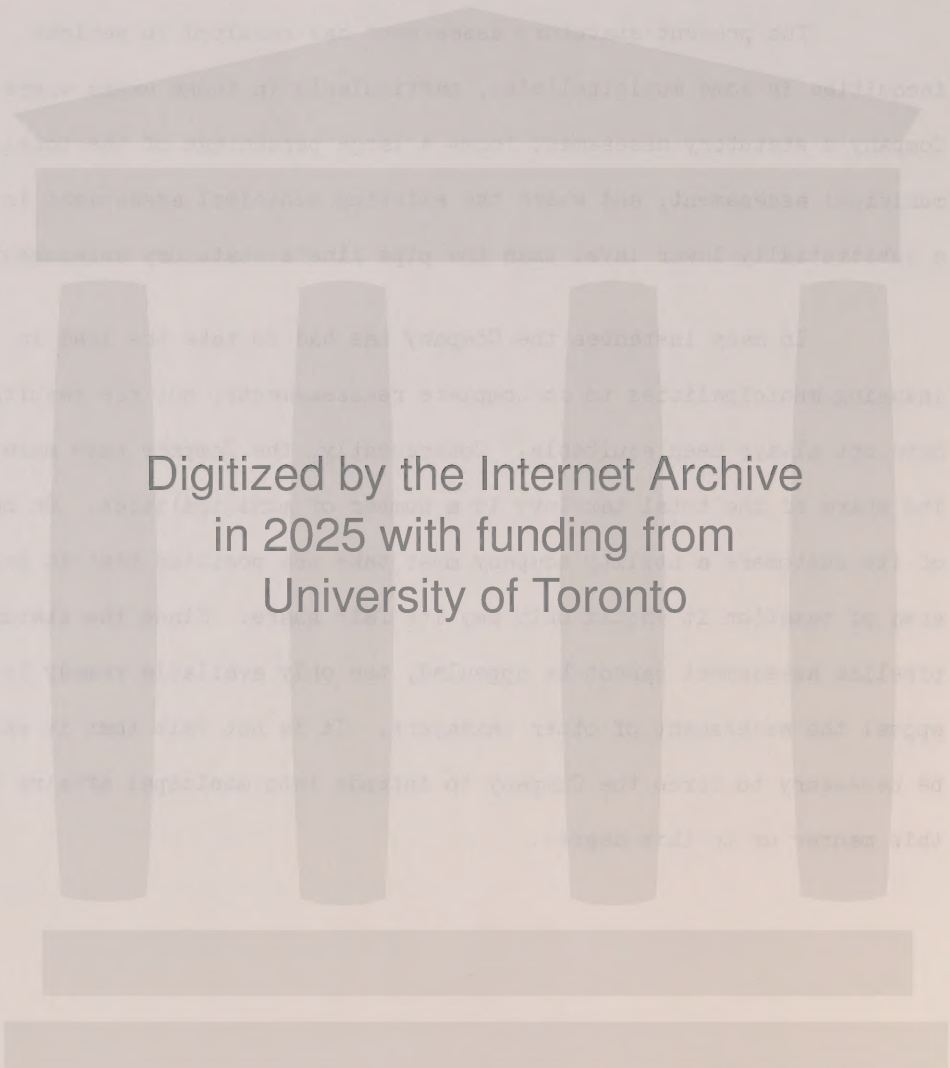
No services are required for the underground facilities, the pipeline. It is therefore our contention that taxation of gas transmission pipe lines in the Province should be provincial rather than

municipal in order to facilitate provincial taxation policies designed to encourage the expansion of transmission facilities throughout the Province.

The revenue collected by the Province in lieu of municipal taxation of gas transmission lines could then be available for grants to all municipalities as needed rather than paid to the municipalities through which the pipeline happens to pass.

The present statutory assessment has resulted in serious inequities in some municipalities, particularly in those areas where the Company's statutory assessment forms a large percentage of the total municipal assessment, and where the existing municipal assessment is at a substantially lower level than the pipe line's statutory assessment.

In many instances the Company has had to take the lead in inducing municipalities to do complete reassessments, but the results have not always been equitable. Consequently, the Company pays more than its share of the total tax levy in a number of municipalities. On behalf of its customers a utility company must take the position that in any area of taxation it should only pay its fair share. Since the statutory pipeline assessment cannot be appealed, the only available remedy is to appeal the assessment of other taxpayers. It is not felt that it should be necessary to force the Company to intrude into municipal affairs in this manner or to this degree.



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Provincial Assessment and Collection of Property Taxes

Our experience, particularly in the northern part of Ontario and to an extent in the more populated areas, suggests that a radical change in procedure is desirable in the interest of the largest number of Ontario taxpayers.

It is suggested that the Province should assume the responsibility for

a) Assessing natural gas transmission pipelines on the basis of the existing statutory rates included in Section 41 of the Assessment Act.

b) Levying a mill rate across the Province.

c) Collecting the taxes.

The following advantages would be achieved -

1. Equality of taxation of pipelines across the Province.

2. Ease of collection.

3. Elimination of the problems of inequalities of assessment base in individual townships or taxing areas between pipelines and other property.

4. No feeling of unfairness between adjacent townships which have, or have not, any pipeline assessment.

5. Return to the basic principle of municipal taxation which is to raise an adequate sum of money to pay for the services rendered to the taxpayer.

The allocation of such revenues by the Province should not create any problems since grants to municipalities according to requirements are already being made of revenue from other sources. In effect, it should be possible to allocate such tax revenues more advantageously to the benefit of a greater number of taxpayers over a wider area than is possible under the present municipal taxation of the pipeline. The Company accepts the fact that the taxes it pays contribute to the provision of normal municipal services and education costs.

Equalization Factor

In the event that our foregoing recommendation cannot be put into effect, or is not for some reason considered practical, we suggest an alternative be considered. We believe that present legislation could profitably be given some degree of flexibility without seriously affecting its fundamental purposes. The establishment of an equalization factor which could be applied to the statutory assessment of a pipeline under certain circumstances is suggested.

Our recommendation is that Section 41 of The Assessment Act be supplemented by creating machinery for equalizing the statutory assessment arising under its provisions with the assessment of all other properties in the municipality. This would create as nearly as is possible a uniform and rateable pattern of assessment, and would reduce the distortions to which this brief has drawn attention. This machinery could suitably be based primarily on the equalizing factor determined year by year by the Department of Municipal Affairs for the purpose of allocating Provincial grants to municipalities.

General

The Company welcomes the announcement of the preparation by the Department of Municipal Affairs of a completely new manual of assessments, and suggests that the Committee explore any means which would be helpful in making the use of this much needed manual mandatory all over the Province as soon as possible. This would include the training of sufficient assessors to carry out the intent of the manual.

CORPORATION TAX

Capital and Place of Business Tax

It is recommended that this tax be completely abolished for the following reasons:

1. It contributes only a small percentage to the provincial revenue, and the abolishment would facilitate the possibility of a combined return for federal and provincial purposes, thereby making possible a reduction in administration costs which would offset the reduction in revenue somewhat, if not fully.

2. Owing to the factors which determine the payment or non-payment of this tax, it becomes for practical purposes a tax imposed on business losses, which would appear undesirable and unreasonable.

3. Insofar as it is primarily a tax on companies, in their formative years when profits are negligible or non-existent, it tends to nullify the incentives provided for new establishments by both provincial and federal governments in their respective income tax provisions, and it is definitely contrary to the present efforts of the provincial government to attract new industries and businesses to Ontario.

4. This tax also diminishes the benefits of using the maximum capital cost allowance rates provided in the income tax act because newly incorporated and large corporations very often face the fact that by claiming maximum capital cost allowance as provided in the act they are penalized by being put in a position where they have to pay capital tax which would not otherwise have been payable.

GENERAL

It would appear most desirable that the Committee direct its attention to simplification and uniformity in the Canadian tax structure through co-operation with other federal and provincial committees or authorities.